

## Message Text

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ACTION AF-10

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 DODE-00 ACDA-07 PM-05 H-01

L-03 /105 W

-----031647 221051Z /13

R 220537Z JUL 77

FM AMEMBASSY KHARTOUM

TO SECSTATE WASHDC 4914

INFO AMEMBASSY ABU DHABI

AMEMBASSY CAIRO

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

C O N F I D E N T I A L KHARTOUM 2426

E.O. 11652: GDS

TAGS: ECON, EFIN, SU

SUBJECT: SUDAN'S BALANCE OF PAYMENTS DIFFICULTIES

REF: (A) STATE 165158 (NOTAL); (B) KHARTOUM 2257; (C) KHARTOUM 2322

BEGIN SUMMARY: HIGH DEVELOPMENT EXPENDITURES AND LOW DOMESTIC SAVINGS ARE BASIC CAUSE OF CHRONIC BALANCE OF PAYMENTS PROBLEMS. FISCAL AND MONETARY POLICIES ARE EXPANSIVE AND COMPLICATE SITUATION. FOREIGN EXCHANGE BUDGETS FOR FY 76/77 AND FY 77/78 ENVISAGE CAPITAL DRAWING OF ABOUT 600 AND 725 MILLION DOLLARS. WITHOUT SUBSTANTIAL BOP SUPPORT, THESE LEVELS PROBABLY WILL NOT BE ACHIEVED. EMBASSY ESTIMATES GAP IN FOREIGN EXCHANGE AVAILABILITY OF 400 MILLION DOLLARS FOR CY 77. IT WILL BE DIFFICULT TO TRIM IMPORTS BECAUSE MANY CREDITS ARE TIED TO DEVELOPMENT EXPENDITURES AND IMPORTS OF CONSUMER GOODS ARE ALREADY AT LOW LEVEL. TO AVOID SERIOUS DIFFICULTIES, ABOUT 100-250 MILLION DOLLARS OF BOP SUPPORT IS NEEDED. END SUMMARY.

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1. STATE REF REQUESTED MORE INFORMATION ON SUDAN'S BALANCE OF PAYMENTS, PARTICULARLY ESTIMATES FOR CY 77. BASIC CAUSE OF CHRONIC BOP PROBLEM IS HIGH LEVEL OF DEVELOPMENT EXPENDITURES AND LOW LEVEL OF DOMESTIC SAVINGS. PERCEIVING ITS GREAT DEVELOPMENT POTENTIAL, SUDAN HAS NOT ACCEPTED FINANCIAL LIMITS FOR INVESTMENT EXPENDITURES DESPITE FINANCING PROBLEMS. LARGE

BOP DEFICITS HAVE BEEN FINANCED BY EXTERNAL BORROWING FOR LAST THREE YEARS. ALTHOUGH EXTERNAL PUBLIC DEBT IN 1976 INCREASED BY ALMOST 400 MILLION DOLLARS, SUDAN HAD REACHED ITS CREDIT LIMIT FROM FOREIGN COMMERCIAL BANK SOURCES AND EXPENDITURES WERE RESTRAINED BY LACK OF CREDIT.

2. SUDAN'S FISCAL AND MONETARY POLICIES ARE BOTH QUITE EXPANSIONARY. FOR EXAMPLE, THE FY 77/78 BUDGET PROJECTS REVENUES OF 1.4 BILLION DOLLARS, ORDINARY EXPENDITURES OF 1.2 BILLION DOLLARS, AND DEVELOPMENT EXPENDITURES OF .8 BILLION DOLLARS. FORTUNATELY, THE FOREIGN EXCHANGE BUDGET TARGETS FOR DEVELOPMENT HISTORICALLY HAVE NOT BEEN ACHIEVED. THEREFORE, TOTAL DEFICIT WILL BE SMALLER THAN INDICATED BY FOREIGN EXCHANGE BUDGET. WITH CONSTRAINTS ON FOREIGN BORROWING, BUDGET DEFICITS MUST BE FINANCED DOMESTICALLY. IN FY 74/75 MOST OF THE BUDGET DEFICIT WAS FINANCED BY EXTERNAL BORROWING. HOWEVER, 270 MILLION DOLLARS OF TOTAL DEFICIT OF 330 MILLION FOR FY 75/76 WAS FINANCED BY DOMESTIC BANKS. RAPID MONETARY EXPANSION TOOK PLACE. BEYOND INFLATIONARY IMPACT, THESE POLICIES STIMULATE IMPORT DEMAND AND COMPLICATE PAYMENTS.

3. IT IS DIFFICULT TO OBTAIN STATISTICS AND REASONABLE PROJECTIONS ON SUDAN'S BOP. PROJECTIONS OF CAPITAL DRAWINGS ARE PARTICULARLY TROUBLESOME. WITH SUDAN'S NEGATIVE REASERVES, NEARLY EXHAUSTED CREDIT, AND GOVERNMENT DEVELOPMENT POLICIES, IMPORT LEVELS ARE A FUNCTION OF AVAILABLE CAPITAL DRAWINGS.  
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SOME IDEA OF RELATIVE FIGURES ARE PROVIDED BY THE FOREIGN EXCHANGE BUDGET:

FOREIGN EXCHANGE BUDGETS--FY 76/77 AND FY 77/78 (MILLIONS OF US DOLLARS)

	FY 76/77	FY 77/78
EXPORTS	526	677
INVISIBLE RECEIPTS	113	138
CAPITAL DRAWINGS	607	733
TOTAL	1,246	1,548
IMPORTS	935	1,083
INVISIBLE EXPENDITURES	180	215
LOAN REPAYMENTS	131	250
TOTAL	1,246	1,548

4. MOST NOTABLE FEATURE OF THESE FOREIGN EXCHANGE BUDGETS ARE THE LARGE CAPITAL DRAWINGS COMPOSED OF FOREIGN ASSISTANCE, INVESTMENT AND BORROWING. FOREIGN ASSISTANCE IS CURRENTLY BEING DISBURSED AT AN ANNUAL RATE OF ABOUT 100 MILLION DOLLARS (LESS THAN HALF 1974 LEVEL). NO RELIABLE FIGURES ARE AVAILABLE FOR FOREIGN INVESTMENTS, BUT EMBASSY ESTIMATES THAT FOR CY 77 THEY WILL BE ABOUT 100 MILLION US DOLLARS ALTHOUGH

COMMITMENTS ARE MUCH HIGHER.

5. BASED ON EXTRAPOLATIONS FROM FOREIGN EXCHANGE BUDGET  
AND EMBASSY ESTIMATE OF EXPORTS, FOREIGN EXCHANGE SHORTFALL FOR  
CY 77 WILL BE LARGE. EMBASSY ESTIMATES RECEIPTS AS FOLLOWS:

EXPORTS	600
INVESTMENT	100
ASSISTANCE	100
NET FOREIGN BORROWING	N/A

EXPENDITURES ARE ESTIMATED AS FOLLOWS:

IMPORTS	900
INVISIBLES	75

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LOAN PAYMENTS	225
	1,200

GAP IN FOREIGN EXCHANGE AVAILABILITY FOR CURRENT YEAR APPEARS TO  
BE ABOUT 400 MILLION US DOLLARS. EMBASSY DOES NOT BELIEVE THAT  
COMMERCIAL FINANCING WILL BE AVAILABLE TO BRIDGE THIS GAP.  
WITHOUT BOP SUPPORT, IMPORT BILL WILL HAVE TO BE TRIMMED AND/OR  
DEBT PAYMENTS WILL NOT BE MADE.

6. SUDAN WILL FIND IT VERY DIFFICULT TO TRIM ITS IMPORT BILL.  
GENERALLY, SUDAN FINDS IT EASIER TO OBTAIN FINANCING FOR  
DEVELOPMENT EXPENDITURES. THUS, OBVIOUS ALTERNATIVE OF  
ELIMINATING NEW PROJECTS PROBABLY WOULD REDUCE THE AMOUNT OF  
CREDIT AVAILABLE WHILE NOT PROVIDING CREDITS FOR IMPORTS OF  
ESSENTIAL COMMODITIES. ALSO, THE SUDAN HAS IMPOSED STRICT  
CONTROLS ON IMPORT OF CONSUMER GOODS. CONSUMER GOODS IMPORTS  
ARE STABLE AND IN REAL TERMS PROBABLY ARE DECLINING. THIS LOW  
LEVEL OF CONSUMER GOODS IMPORTS IS DUE TO STRICT MANAGEMENT  
OF THE FOREIGN EXCHANGE CONTROL SYSTEM BY THE BANK OF SUDAN.  
THUS, IT DOES NOT APPEAR THAT THERE IS MUCH FAT THAT CAN BE  
SQUEEZED OUT OF SUDAN'S IMPORT BILL.

7. IT APPEARS THAT SUDAN NEEDS BOP ASSISTANCE IN CURRENT YEAR  
OF 150-250 MILLION DOLLARS TO AVOID SERIOUS DIFFICULTIES. THIS  
LEVEL OF BOP SUPPORT IS ONLY SLIGHTLY GREATER THAN THAT PROVIDED  
BY SAUDIS FOR LAST TWO YEARS. HOWEVER, THERE IS NO INDICATION  
THAT SAUDI BOP SUPPORT READILY FORTHCOMING. AT SAME TIME,  
SAUDI ARABIA AND KUWAIT HAVE IMPORTANT COMMERCIAL AND  
INVESTMENT INTERESTS IN SUDAN AND MIGHT RESPOND TO PREVENT  
CRISIS IN ECONOMY. SUCH A CRISIS WOULD BE POLITICALLY  
DESTABILIZING WHICH WOULD PROVIDE AN ADDITIONAL INCENTIVE FOR  
ARAB BOP SUPPORT. BERGUS

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